

Resource Adequacy – Feedback Form

Meeting Date: September 28, 2020

<u>Date Submitted:</u> <i>2020/10/20</i>	<u>Feedback Provided By:</u> Organization: Capital Power Corporation (“Capital Power”) Main Contact: Emma Coyle Email: [REDACTED]
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Following the September 28, 2020 Resource Adequacy webinar, the Independent Electricity System Operator (IESO) is seeking feedback from stakeholders on the following items discussed during the webinar. More information related to these feedback requests can be found in the presentation, which can be accessed from the [engagement web page](#).

Please submit feedback to engagement@ieso.ca by October 20, 2020. If you wish to provide confidential feedback, please submit as a separate document, marked “Confidential”. Otherwise, to promote transparency, feedback that is not marked “Confidential” will be posted on the engagement webpage.

Stakeholder Feedback Table

IESO Requests	Stakeholder Feedback
<u>Principles to Guide the Resource Adequacy Framework Conversation</u>	
<p>The IESO proposes to use the MRP guiding principles to guide the discussion with stakeholders on the development of a high-level Resource Adequacy framework. Are there other principles that should be considered throughout this discussion?</p>	<p>Further work is required to establish how the Resource Adequacy Framework will be assessed against the principles of efficiency, competition, implementability, certainty and transparency. Generally, Capital Power supports the use of these principles to guide the development of the RA Framework but submits additional work is required to ensure all stakeholders understand how they will be balanced and interpreted in the context of the RA discussion. To facilitate good governance and effective stakeholdering, the IESO should take the additional step of establishing how it will assess RA Framework proposals against these principles. This is particularly important with respect to the principles of competition and efficiency, for reasons more fully described below.</p> <p>Competition. Capital Power appreciates the IESO’s explicit recognition of the role that government policy is expected to play in future procurements. It is, however, still unclear how the IESO will ensure its processes facilitate and allow for competitive results. For example, the IESO has stated that its RA Framework will seek to establish “as level a playing field as possible” but the IESO has not provided detail regarding what it considers to be an acceptable departure from the “level playing field” standard or how such a departure will be measured. With consideration to how the IESO has defined competition in its proposed principles (competition has been defined as providing for <i>open, fair and non-discriminatory competitive opportunities</i>) and the IESO’s explicit acknowledgement of the role to be played by government policy, it is critical that further work be done to establish a common understanding of the role competition will be expected to play in the RA Framework.</p> <p>Capital Power understands that the IESO intends to fully address eligibility requirements in 2021. It is Capital Power’s view that competition requires opportunities under the RA Framework be made open to <i>all</i> resource types. Eligibility requirements must not discriminate against resources based on whether</p>

the resource is an existing participant or a potential new entrant. Barriers that seek to limit participation on this basis are antithetical to the principle of competition.

Efficiency. When considering the meaning and value of efficiency it is instructive and helpful to consider work previously undertaken by the Market Surveillance Panel (“the Panel”). In one of its first Monitoring Reports, the Panel commented on the value of competition and the meaning of efficiency, particularly as it relates to investment:¹

“Efficiency in investment has three aspects: efficient technology choice; timeliness; and capacity sufficiency. In competitive markets, current and expected future prices guide the investment decisions of existing and potential suppliers as well as the consumption decisions of customers. Markets work best when price signals are accurate and when both suppliers and users can see them and are able to respond to them. While important, price is not the only signal of importance to potential investors. Investors must also have confidence that they can reasonably predict future regulatory and public policy.

We have stated in previous reports that there is a shortage of generating capacity in Ontario and that new investment is required. There has, however, been an apparent lack of willingness to invest in new generation capacity in the province. In our view, the most serious impediments to new investment are, first, the uncertainty in the regulatory and public policy environment and second, a market price that does not accurately reflect the shortage of supply in Ontario.”

¹ Market Surveillance Panel Monitoring Report on the IMO-Administered Electricity Markets, The First Eighteen Months (May 2002 – October 2003), at page 113. Available at https://www.oeb.ca/documents/msp/panel_mspreport_imoadministered_171203.pdf

	<p>Capital Power suggests that a fourth element of efficiency be added to those listed by the Panel, and that is efficiency of location. The RA Framework should attract investment based on locational value and the efficient utilization of existing transmission infrastructure. This will help ensure that investments in system resources contribute the greatest value for ratepayers.</p> <p>With regards to the uncertainty around government policy presenting an impediment to efficient investment, Capital Power would like to reiterate that it appreciates that the IESO has explicitly acknowledged the anticipated role of government policy and government directives in the future procurement of resources. This acknowledgement must also recognize the increased risk investors face from policy uncertainty, especially where government policy favours certain technology types or otherwise lessens the risk some investors face while increasing exposure for others. As with all risk, investors and providers of capital will seek to price policy risk and make investment decisions based on how this risk may impact expected returns on capital.</p> <p>The efficient allocation of capital requires expected returns to be commensurate with the risk undertaken. For the RA Framework to be guided by the principle of efficiency, its structure must recognize that competition will drive the efficient allocation of capital, and that this capital will seek to efficiently price all risks, including those arising from government policy.</p>
Draft Resource Adequacy Framework	
<p>Do these three capacity acquisition timeframes (commitment and forward periods) provide sufficient options for meeting the needs of your resource type?</p>	<p>Capacity acquisition timeframes and forward periods should be based on the product/need being sought by the IESO. The timeframes, the forward periods and selection of the capacity acquisition tool (or, RA procurement tool) should reflect an efficient allocation of risk between parties.</p> <p>Capital Power submits that a discussion seeking to establish commitment timeframes cannot be isolated or considered separately from related issues of price and risk allocation. Accordingly, at this stage Capital Power suggests that the IESO prioritize (i) clearly articulating system needs based on product type/attribute, (ii) developing and</p>

	<p>applying a transparent planning methodology so that investors and asset owners can assess risk to capital deployed and potentially deployed, and (iii) developing commitment terms and mechanisms that are agnostic to resource type but strike the appropriate bargain between the IESO as the buyer of resources on behalf of the ratepayer and suppliers seeking to earn a fair return on capital. These elements form the necessary backbone of any future competitive procurement process in Ontario and if implemented will greatly help to attract those resource types best positioned to provide the lowest cost solution for the ratepayer.</p> <p>The question of whether the proposed commitment timeframes and forward periods work for various resource types can only be fully considered in the context of pricing, risk allocation, expected returns from the IESO Administered Market (“IAM”) the effect of government policies, government subsidies and also government investment. All these factors will impact expected returns of and on capital, and each must be considered when assessing whether the commitment timeframes will attract competitive investment from various resource types.</p>
<p>Which option(s) are most suited to your resource type?</p>	<p>It is Capital Power’s position that the IESO should develop its RA Framework in a manner that seeks to (i) transparently identify system needs and (ii) competitively procure resources that can meet identified needs without preference or discrimination based on resource type.</p> <p>The best option for Capital Power will be the one that allows price to reflect risks borne by investors, providing both a reasonable opportunity to recover costs and earn an appropriate return on investment.</p> <p>Capital-intensive investments will require multi-year commitment periods, and to support competition and competitive pricing existing resources must be permitted to compete against new entrants for longer term supply needs.</p> <p>Depending on how government policy and the Market Renewal Program (“MRP”) affect competitive opportunities and IAM performance going forward, the IESO should consider a scenario where investors will apply minimal value to future returns from the IAM and will instead seek to ensure all necessary returns are provided for under</p>

	<p>contracts. Pricing and commitment terms required by investors will reflect the perceived risk profile of the jurisdiction.</p>
<p>Based on timing when various mechanisms are going to be available, do you see timing gaps when a resource needs a mechanism before that mechanism is ready?</p>	<p>It appears there may be a timing gap for some resource owners. For contracts expiring before the end of this decade, payment mechanisms and instruments may need to be negotiated 2-3 years in advance contract termination.</p> <p>Owners of assets will likely want to have contract extensions or commitment agreements finalized 2-3 years in advance of contract termination. It is reasonable to assume that when owners are considering further investment (or re-investment) each will assess whether there exist opportunities to recover capital and operating costs from the RA Framework and IAM. While the impact of the MRP is not fully known at this time, it may be that opportunities to recover short-run operating costs (or fixed costs) will not exist in the post-MRP IAM. For this reason, and until the impact of MRP is understood, the IESO should not assume that returns earned in the IAM will provide incentives for continued commercial operation. Capital Power suggests that the IESO develop a plan to “bridge the gap” between when mechanisms become available and contracts for existing resources terminate. Any such bridge plan should not unjustly discriminate against resources with contracts expiring after the launch of the RA Framework.</p> <p>Lastly, resources without contracts or capacity payments should be subject to different bid/offer conduct rules than those which continue to receive such payments. The current design of the market power mitigation framework in the IESO’s MRP treats all resources as if they are under contract and restricts offers to levels that permit only the recovery of short run marginal costs. Those without a contract or capacity payments during the gap period may lack any means of recovering their fixed costs and therefore may be forced to contemplate market exit. Special consideration should be given to these resources and conduct rules should permit commercial and market strategies that allow for the recovery of costs.</p>

Resource Adequacy Engagement Plan	
What needs to be considered in future engagement phases to develop the details of the mechanisms in the framework?	<p>The IESO should conduct a comprehensive Net Revenue Analysis (such as those conducted in PJM) to ensure the RA Framework results in the appropriate investment incentives. It should be based on the IESO planning forecast, the expected impact of government policy and changes that will be brought in by Market Renewal.</p> <p>In 2005 the Panel conducted a similar Revenue Adequacy Assessment showing that market returns were inadequate to incentivize needed investment in the province and that supplementary payment mechanisms would be required.² Given that the IESO is again embarking on the development of procurement mechanisms, it is an appropriate time to conduct a similar review. A Net Revenue Analysis will help to identify for all stakeholders the importance of payments guaranteed under procurement mechanisms, such as contracts and capacity auctions, and what options may not be viable.</p>
What other areas need to be discussed with stakeholders to operationalize the framework?	<p>All other areas for consideration and discussion at this time have been captured in our comments here. Additional areas may be identified during subsequent stakeholder meetings.</p>

² Market Surveillance Panel Monitoring Report on IESO-Administered Electricity Markets for the period from November 2004 – April 2005 at page 43. Available at https://www.oeb.ca/documents/msp/msp_report%20final_090605.pdf.